

Message Text

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11

ACTION EA-10

INFO OCT-01 ISO-00 SP-02 AID-05 EB-07 NSC-05 RSC-01

CIEP-01 TRSE-00 SS-15 STR-01 OMB-01 CEA-01 CIAE-00

COME-00 FRB-01 INR-05 NSAE-00 XMB-02 OPIC-03 LAB-04

SIL-01 DODE-00 PA-01 USIA-06 PRS-01 SAJ-01 PM-03 L-02

H-01 AGR-05 /086 W

----- 009238

R 100832Z DEC 74

FM AMEMBASSY TAIPEI

TO SECSTATE WASHDC 3653

INFO AMEMBASSY SEOUL

AMEMBASSY TOKYO

AMCONSUL HONG KONG

USLO PEKING

CINCPAC

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E.O. 11652: N/A

TAGS: EFIN, TW

SUBJECT: GROC RULES OUT DEVALUATION NOW AND ANNOUNCES MEASURES
TO ASSIST EXPORT INDUSTRIES

HONG KONG FOR E. GORDON, TREASURY REP.

CINCPAC NOT ADDEE PASS TO AMB UNGER, KAPPA 74.

REF: TAIPEI 6975

1. SUMMARY: GROC ANNOUNCED DECEMBER 9 THAT NT DOLLAR
WILL NOT BE DEVALUED AT PRESENT TIME. OTHER MEASURES
WILL BE TAKEN TO KEEP ROC EXPORTS COMPETITIVE. SITUATION
WILL BE WATCHED CLOSELY, HOWEVER, AND IF ROC EXPORTS LOSE
GROUND TO EXPORTS FROM KOREA, GROC MAY DECIDE IT HAS NO
ALTERNATIVE BUT TO FOLLOW ROKG EXAMPLE. END SUMMARY.

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2. GROC ANNOUNCED EVENING OF DEC 9 THAT IT WILL NOT DEVALUE NT DOLLAR AT THIS TIME IN RESPONSE TO DEVALUATION OF WON BY ROKG. INSTEAD, IT WILL TAKE A NUMBER OF ADMINISTRATIVE MEASURES TO HELP OFFSET ANY ADVERSE EFFECTS ON ROC EXPORTS RESULTING FROM KOREA'S ACTION. AMONG MEASURES ARE SUSPENSION OF COLLECTION OF AIR FREIGHT TAX TO 9 PERCENT ON IMPORTS AND 6 PERCENT ON EXPORTS AND HARBOR TAX OF 3 PERCENT ON RAW MATERIALS IMPORTED FOR USE BY EXPORT INDUSTRIES. TO HELP REDUCE LARGE INVENTORIES OF TEXTILE MILL PRODUCTS AND PRODUCTS OF THE METAL FABRICATING INDUSTRY, GORC AGENCIES WILL BE PROVIDED WITH FUNDS TO STOCKPILE UP TO THREE YEARS' REQUIREMENTS. OTHER MEASURES ARE DESIGNED TO RESUCE COSTS OF BORROWING MKONEY AND TO PROVIDE TAX RELIEF. EMBASSY'S ANALYSIS OF THESE MEASURES AND THE IMPACT THEY ARE LIKELY TO HAVE WILL BE SUBMITTED SOONEST.

3. GROC ANNOUNCEMENT FOLLOWED SERIES OF MEETINGS ON DECEMBER 8 AND 9 BY "COMMITTEE OF FIVE", CONSISITING OF YU KUO-HUA (GOVERNOR OF CENTRAL BANK), LI KUO-TING (MINISTER OF FIANCE), SUN YUN-HSUAN (MINISTRY OF ECONOMIC AFFAIRS), CHOU HUNG-T'AO (DIRECTOR-GENERAL OF BUDGET ACCOUNTS AND STATISTICS) AND FEI HUA (SECRETARY-GENERAL OF EXECUTIVE YUAN). ACCORDING TO VICE MINISTER OF FINANCE WANG SHAO-YU, COMMITTEE WAS INSTRUCTED BY PREMIER CHIANG CHING KUO ON DEC 7 TO EVALUATE IMPACT OF WON DEVALUATION ON ROC EXPORTS AND TO SUBMIT RECOMMENDATIONS TO HIM ON POSSIBLE EXPORTS AND TO SUBMIT RECOMMENDATIONS TO HIM ON POSSIBLE GROC ACTION WITHIN 18 HHOURS. ANNOUNCEMENT FOLLOWED MEETING OF COMMITTEE WITH PREMIER EVENING OF DECEMBER 9. VICE MINISTER WANG HAS EMPHASIZED TO ECONCOUN THAT DECISION NOT TO DEVALUE IS NOT IRREVOCABLE. COMMITTEE HAS BEEN INSTRUCTED TO MONITOR ROC EXPORT PERFORMANCE CLOSELY AND ROC AMBASSADOR IN SEOUL HAS BEEN INSTRUCTED TO REPORT PROMPTLY ON EFFECTS WON DEVALUATION ARE HAVING ON KOREAN EXPORTS. WANG IS OF OPINION THAT IF ROC COMPETITIVE POSTION SLIPS BADLY VIS-A-VIS KOREA OVER NEXT TWO OR THREE MONTHS, GROC MAY HAVE NO ALTERNATIVE BUT TO DEVALUE ALSO.

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4. COMMENT: DECISION NOT TO DEVALUE NOW IS OBVIOUS VICTORY FOR GOVERNOR YU SINCE HIS ABHORRENCE OF DEVALUATION IS AS WELL-KNOWN AS IS MINISTERS SUN'S SUPPORT FOR DEVALUATION. BUSINESS LEADERS IN BOTH CHINESE AND US COMMUNITIES WHO HAVE BEEN SOUNDED OUT BY EMBOFFS ON GROC DECISION NOT TO DEVALUE ARE OF MIXED EMOTIONS. ALL AGREE, HOWEVER, KTHAT IF MEASURES JUST ANNOUNCED ARE INSUFFICIENT TO PREVENT FURTHER EROSION OF ROC EXPORT

PERFORMANCE, GROC MAY DECIDE IT AS NOT ALTERNATIVE BUT
TO FOLLOW DOREA'S EXAMPLE. POPPLE

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